

TRS MEMBER HANDBOOK



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TRS PLAN 3: SUMMARY OF BENEFITS

Membership Definition

All public school teachers hired into an eligible position on or after July 1, 1996 until June 30, 2007, are covered by TRS Plan 3. Also, Plan 2 members hired before July 1, 1996 have the option to transfer to Plan 3. TRS members who are first hired on or after July 1, 2007, have a 90-day window to choose Plan 2 or Plan 3. If no choice is made, the member will be defaulted into Plan 3.

Contribution Rates

Contributions to TRS Plan 3 are mandatory. Once you select a contribution rate you may change it only if you change employers or during the rate change window in January as allowed by the Internal Revenue Service (IRS). Currently, there are six contribution rate options.

Defined Contribution Account

Your member contributions are deposited in a defined contribution account. That money is invested according to your instructions and you can take payment of that account any time you terminate from all TRS-covered employment.

How Service Credit is Accumulated

You earn 12 service credit months for each school year (September 1 through August 31) in which you work in the month of September, work at least nine months and work at least 810 hours in that year. It is possible to earn service credit in smaller increments.

Eligible for Retirement

TRS Plan 3 provides for a normal retirement benefit at age 65 if you have:

- At least 10 service credit years; or
- Five service credit years, including 12 service credit months that were earned after your 44th birthday; or
- Five service credit years earned in TRS Plan 2 prior to July 1, 1996.

An early retirement benefit may be available beginning at age 55.

Average Final Compensation (AFC)

Your AFC is the monthly average of your 60 consecutive highest-paid service credit months. Payments for any type of severance pay, such as lump-sum payments for deferred sick leave, vacation, annual or personal leave are not included.

Benefit Formula

$1\% \times \text{Service Credit Years} \times \text{AFC} = \text{Monthly Benefit}$

Cost-of-Living Adjustment (COLA)

On July 1 of every year following your first full year of retirement, your monthly benefit will be adjusted by the percentage change in the Consumer Price Index, to a maximum of 3 percent per year.

Disability Retirement

If you become totally incapacitated for continued employment with a covered employer, and leave that employment as a result of the disability, you may be eligible for a disability retirement benefit.

Death in Service Survivor Benefit

- If you die before you have initiated payment from your defined contribution account, your beneficiary will receive the balance in that account.
- If you die before you retire, your surviving spouse, or if none, your minor children, will receive a defined benefit.

PLAN 3

This handbook explains your rights and benefits under Plan 3 of the Washington State Teachers' Retirement System (TRS). The plan is a 401(a) and is designed to be an important source of income that, along with Social Security benefits (if you are eligible), personal savings, and other investments, will help pay your living expenses when you retire.

TRS Plan 3

The Washington State Legislature created Teachers' Retirement System (TRS) Plan 3, a dual-component retirement plan, in 1995. It became effective July 1, 1996.

TRS Plan 3 is composed of two separate retirement benefit components

TRS Plan 3 has a dual benefit structure. Member contributions finance a defined contribution component, and employer contributions finance a defined benefit component.

The member-financed, defined contribution component provides an investment program you may access any time you separate from covered employment. The amount of retirement income generated depends on how much you contribute and the performance of your investments. You choose how much you contribute, where your contributions are invested, and how and when you take payment.

The employer-financed, defined benefit component provides a normal retirement at age 65, or an early retirement as early as age 55. The benefit amount is based on your years of service credit and your final average compensation and could be affected if you choose a survivor benefit option (see page 14).

If you retire early, the amount of your reduction is based on your service credit, your age, the date you retire and the early retirement factor used (see pages 10 and 11).

Plan 3 membership definition

All public school teachers hired into an eligible position on or after July 1, 1996 until June 30, 2007, are covered by TRS and are required to join Plan 3. Currently, an eligible position is one which normally requires five or more months of 70 or more hours of compensated employment from September through August.

TRS members who first become hired on or after July 1, 2007, have 90 days to choose between TRS Plan 2 and TRS Plan 3. Individuals who do not choose either TRS Plan 2 or TRS Plan 3 within 90 days will be defaulted into TRS Plan 3.

This plan choice provision is based on the repeal of gain sharing. If the repeal of gain sharing is found to be invalid, a member hired after the court action will not have a plan choice and would be mandated into Plan 3.

If you established membership in TRS on or after October 1, 1977, but before July 1, 1996, you began TRS membership in Plan 2. Plan 2 members hired between October 1, 1977 and June 30, 1996, have the option to transfer to Plan 3 each January. If you established membership in TRS before October 1, 1977, you are covered by Plan 1. Plan 1 members cannot transfer to Plan 3.

Summary Description

The rules governing your benefits are contained in state retirement laws. This handbook is a summary, written in less legalistic terms. It is not a complete description of the law. If there are any conflicts between what is written in this handbook and what is contained in the law, the current law will govern.

Teacher means any person who is qualified to teach and is employed by a public school in an instructional, administrative or supervisory position. This includes:

- State, school district and educational service district superintendents and their assistants;
- State, school district and educational service district employees who are certificated by the Washington Superintendent of Public Instruction; and
- Any full-time school doctor who is employed by a public school and who renders instructional or educational services.

Substitute teachers should request the publication *TRS Plan 2 and 3 Substitute's Guide* to determine their participation status. This is available from your employer and the DRS Web site at www.drs.wa.gov.

Membership exclusions

If you are already receiving retirement or disability benefits from a public employer in Washington, you may be prohibited from joining this plan. If this applies to you, contact DRS (see page 20 for contact information).

Inform your employer of previous retirement system membership

It is important you tell your employer if you have any prior membership, even if you withdrew your contributions.

TRS Plan 3 features

Here are some of the plan's key features:

- The defined benefit component provides a lifetime monthly benefit once you meet the plan's minimum requirements.
- Your personal retirement account increases or decreases based on the performance of your investments.

- You have several options for the amount of money you contribute. Once you select a contribution rate you may change it only if you change employers or during the rate change window in January as allowed by the IRS.
- You can choose between two investment programs: the Washington State Investment Board (WSIB) Investment Program or the Self-Directed Investment Program (see page 6).
- Your contributions can only be withdrawn if you leave TRS-covered employment. You cannot withdraw contributions made by your employer (see page 8).
- Taking payment of your contributions does not affect your defined benefit component. The defined benefit component of Plan 3 is financed by your employer's contributions.
- You remain a member of the plan if you transfer to another TRS-covered employer in a TRS-eligible position.
- If you are a dual member, you may be able to combine service credit with that earned in other Washington State retirement systems in order to qualify for retirement (see page 9).
- The plan provides disability retirement benefits and survivor benefits if you meet the requirements (see page 17).

When should I start planning for retirement?

Planning for retirement is an ongoing process. The sooner you start, the more likely you are to enjoy a comfortable and successful retirement. Here are some simple things you can do to help prepare for retirement:

- If you are within five years of retirement, attend one of the DRS Retirement Planning seminars. These sessions feature speakers on a number of retirement subjects and are free of charge. The dates and locations for these seminars are available on the DRS Web site.

- Calculate your future retirement benefit using the Online Account Access on the DRS Web site. You can run a variety of retirement scenarios to see what works best for you.
- Because there are statutory time limits on restoring contributions withdrawn from your state pension, obtain a copy of the DRS brochure *Plan 3 Recovery of Withdrawn or Optional Service Credit* or view the publication on the DRS Web site and review the rules that apply to your situation.
- Learn more about investing at an Investment Education Seminar. Seminar locations can be found online on the TRS Plan 3 Investment Education Web site at www.icmarc.org/trs.

Who pays for my benefits?

TRS Plan 3 is a 401(a) defined benefit plan with a defined contribution component (see “Defined contribution component” below). This means that at retirement you will receive a benefit based on service credit and average final compensation. The amount of contributions made will not be a factor in calculating your defined benefit.

Defined benefit component

Your future defined benefit is funded by contributions made by your employer during your period of membership and the investment earnings from those contributions. Employer contributions are held in trust and invested by the WSIB.

Employer contributions are based on a percentage of your salary and are not matching. Employer contributions go toward future retirement benefits, are not credited to your account and cannot be withdrawn.

Defined contribution component

Your defined contribution benefit is funded by your contributions and the investment earnings from those contributions. The amount of your defined contribution benefit depends on the amount you contribute and the performance of your investments.

How much am I required to contribute?

Contributions to your retirement plan are mandatory. Once you have selected a contribution rate you may change it only if you change employers or during the rate change window each January as allowed by the IRS. Currently, there are six contribution rate options:

Option A:	5% fixed rate at all ages
Option B:	5% up to age 35
	6% ages 35 through 44
	7.5% ages 45 and older
Option C:	6% up to age 35
	7.5% ages 35 through 44
	8.5% age 45 and older
Option D:	7% fixed rate at all ages
Option E:	10% fixed rate at all ages
Option F:	15% fixed rate at all ages

Choosing a contribution rate

You must decide on your rate option at the time you become a member of TRS Plan 3.

If you changed employers or are a returning Plan 3 member, you have 90 days from your date of hire to choose a rate. If you do not select a rate option within 90 days, the law requires that Option A be assigned automatically. Refer to the *An Introduction to Plan 3* booklet for more information. This booklet is available through ICMA-Retirement Corporation (ICMA-RC), DRS’ contracted Plan 3 record-keeper or your employer.

Limitations on annual contributions

If you are a contracted teacher, your contributions are tax-deferred. If you are participating in other tax-deferred plans, be aware that your tax-deferred contributions can be limited based on your annual taxable income. Tax-deferred contributions decrease your taxable income. Consult the IRS and/or a tax adviser for detailed information.

How will my contributions be invested?

Under TRS Plan 3 you may choose between two separate investment programs. They are the WSIB Investment Program and the Self-Directed Investment Program.

The WSIB Investment Program

The WSIB Investment Program enables you to invest in the Total Allocation Portfolio (TAP), a portfolio with an asset allocation that is determined, managed and continuously rebalanced by the WSIB. If you do not select an investment program, your contributions will automatically be directed to this program.

Self-Directed Investment Program

The Self-Directed Investment Program enables you to design your own investment portfolio from a menu of funds, or to choose a pre-set portfolio based on your investment time horizon.

If you choose the Self-Directed Investment Program, you must contact ICMA-RC to establish your investment allocation. Use the automated phone line, Web site or speak with a customer service representative to choose which self-directed fund(s) you want your contributions invested in. You can also complete a *Plan 3 Self-Directed Investment Allocation Form* and forward it to ICMA-RC. If you select the Self-Directed Investment Program and do not set up an allocation, your contributions will be invested in the 2010 Retirement Strategy Fund.

You can learn more about the WSIB and Self-Directed Investment Program by obtaining a copy of the *Plan 3 Investment Guide* from your employer or ICMA-RC.

How you select an investment program

When you become a member of TRS Plan 3, you must use the *Member Information Form* to select your investment program. You can contribute to only one of the two investment programs at a time.

Changing your investment program

You may change your investment program at any time. If you wish to change your investment program, complete a *Plan 3 Change of Investment Program* form and return it to your employer. Both *Member Information* and *Plan 3 Change of Investment* forms are available on the DRS Web site or through your employer.

How you transfer account balances between investment programs

Though you can contribute to only one of the two investment programs at a time, you may have investments in both programs. If you wish to move all or a portion of the balance of your investment account between investment programs, contact ICMA-RC (see page 20 for ICMA-RC contact information).

What is service credit?

The amount of your defined benefit depends upon your time in service and your earnable compensation. Service credit is based on the total compensated time spent in an eligible position and reported by your employer on your behalf. Service credit rules may not be used in combination.

You earn 12 service credit months for each school year (September 1 through August 31) in which you:

- Begin working in September; and
- Receive earnable compensation in at least nine months; and
- Receive earnable compensation for 810 or more hours.

You earn six service credit months for each school year in which you:

- Begin working in September; and
- Receive earnable compensation in at least nine months; and
- Receive earnable compensation for at least 630 hours but fewer than 810 hours.

Beginning with the 2008/2009 school year, you earn six service credit months for each school year in which you:

- Receive earnable compensation in at least five months within a six-month period; and
- Receive earnable compensation for at least 630 hours.

If you do not meet the requirements above, your service credit will be determined as follows:

- You earn one service credit month for any calendar month in which you receive earnable compensation for at least 90 hours. The 90 hours may be earned with one or more employers.
- Beginning September 1, 1991, you receive one half of a service credit month for any calendar month in which you receive compensation for fewer than 90 but at least 70 hours.
- You receive one quarter of a service credit month for fewer than 70 hours in a calendar month.

No more than one month's service credit may be earned for each calendar month worked, regardless of the number of employers for whom you work.

EXAMPLE

Calculating service credit

Suppose you taught full-time from the 1999-2000 school year and continuing through the end of the 2004-2005 term – six full years. Then you reduced your hours. During the 2005-2006 school year, your hours and service credit were as follows:

	HOURS	SERVICE CREDIT MONTHS
September	140	1
October	140	1
November	0	0
December	0	0
January	70	0.5
February	120	1
March	100	1
April	110	1
May	120	1
June	40	0.25
July	0	0
August	0	0
TOTAL	840	6.75

Although you worked more than 810 hours in the 2005-2006 school term, you did not work nine months, so you would receive six and 3/4 service credit months for your work in September, October, January, February, March, April, May and June. Total service credit for the period beginning with the 1999-2000 term and ending with the 2005-2006 term would be six years, six and 3/4 months.

Claiming credit for substitute teaching

If you work as a substitute teacher, your employer(s) reports to DRS the amount of service performed. To receive credit for your service, you must apply for it after August 31.

For information about this procedure, ask your employer for a copy of the publication *TRS Plan 2 and 3 Substitute's Guide*. This publication is also available on the DRS Web site at www.drs.wa.gov. If

your substitute teaching was before the 2004-2005 school year, contact your employer(s) to obtain your quarterly reports.

Service credit from another retirement system

You may be able to combine your TRS service credit with credit earned in other Washington State retirement systems in order to qualify for retirement (see “What if I’ve previously been a member of another retirement system?” on page 9).

Military service

You may be eligible to receive up to five years of service credit for military service by paying member contributions for the time spent in the military. You must complete payment of these contributions prior to retirement or five years from the time you resume employment, whichever comes first. To qualify you must have:

- Left TRS-covered employment to enter the uniformed services; and
- Applied for re-employment within 90 days of an honorable discharge.

For more information, refer to the *Military Service Credit* publication for TRS Plan 3 members on the DRS Web site.

A member who becomes totally incapacitated for continued employment as a result of service in the uniformed services of the United States, or the surviving spouse or eligible children of a member who dies while serving in the uniformed services of the United States may apply for interruptive military service credit. The member or eligible spouse or children would pay only the employee contributions. Contact DRS for more information.

Unpaid leave of absence

You may purchase service credit for an unpaid leave of absence authorized by your employer. Service credit for a leave of absence is limited to a maximum of two years during your working career.

To obtain service credit for unpaid leave, you must return to work in a TRS-eligible position, and pay both member and employer contributions, including interest for both, for the time on leave. Contributions are based on the average of your earnable compensation at the time you were granted the leave and at the time you resume your employment. The compensation calculated for this period will not be used in your AFC.

You must contact DRS for recovery of service credit for authorized leave. Payment must be completed prior to retirement or within five years of returning to employment, whichever comes first.

Purchase of temporary duty disability service credit

Effective July 22, 2007, TRS Plan 2 members who are injured in the course of employment may purchase up to 24 consecutive months of service credit for each period of Temporary Duty Disability (TDD). The period of separation from employment must be caused by an injury that occurred on or after the effective date (July 22, 2007).

To be eligible, you must become disabled in the line of duty and receive benefits under Title 51 Revised Code of Washington or a similar federal workers’ compensation program. You may not receive more than one month’s service credit in a calendar month.

You do not need to be an active member to purchase the TDD service credit. You and your employer must make employer and member contributions on the compensation you would have earned had you been working. If contribution payments are made retroactively, interest will be charged at the rate set by the DRS Director for both employee and employer contributions. Service credit will not be granted until payment is made in full.

What if I leave my TRS position?

If you leave covered employment, you can leave your defined contribution money in the plan.

As long as you have a balance in your defined contribution account, its value will continue to rise or fall depending on investment performance.

If you have separated from TRS-covered employment, federal law requires that you begin receiving a minimum amount from your retirement account by April 1 of the year after you reach age 70½. The options you have for receipt of the money are outlined in the *Plan 3 Request for Payment of Defined Contribution Funds* booklet available from the DRS Web site or from ICMA-RC.

If you leave TRS-covered employment and leave your defined contributions in the plan, be sure to inform ICMA-RC of any name, address and beneficiary changes. You will continue to receive quarterly statements and be able to move your money between investments.

If you leave TRS-covered employment and withdraw your defined contribution money, this will not affect the defined benefit portion of your retirement plan.

Delaying receipt of your benefit

If you accumulate 20 service credit years or more and separate from service, your defined benefit will be increased by three percent each year, and the reduction to your benefit for early retirement will be less (see “How does retirement before age 65 affect my benefit?” on page 10). The three percent increase will be from the date of separation until you begin drawing your benefit.

What if I’ve previously been a member of another retirement system?

Dual membership

If you have been a member of more than one Washington State public service retirement

system, you may qualify as a dual member even if your membership in another system has been terminated.

You qualify for dual membership if you become a member of TRS and also:

- Have service credits in the School Employees’ Retirement System (SERS), Public Employees’ Retirement System (PERS), Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Plan 2, Public Safety Employees’ Retirement System (PSERS), the Washington State Patrol Retirement System (WSPRS), or the City Retirement System for Tacoma, Seattle or Spokane; and
- Have not retired from service with any public retirement system in the state of Washington; and
- Are not currently receiving a disability retirement or disability leave benefits from any public retirement system in the state of Washington.

Service credit for dual members

As a dual member, you may combine service credit from any of the above retirement systems to qualify for retirement. If you combine service credit to achieve eligibility for retirement but you are not old enough to retire from one of the systems:

- You may postpone receipt of that retirement benefit until you are eligible for an unreduced benefit; or
- You may retire immediately with a reduced benefit (see “How does retirement before age 65 affect my benefit?” on page 10).

If you retire under dual membership provisions, your benefit will be calculated using the highest base salary from either system (see “Calculating benefits for dual members” on page 12).

Restorations for dual members

If you are a dual member and wish to restore service credit in a system other than TRS, you must

repay the amount withdrawn, plus interest from the date of the withdrawal until paid in full, within two years of first becoming a dual member or before you retire, whichever comes first.

To receive a billing for restoration of service credit, contact DRS.

What if I miss the deadline?

If you miss the deadline for restoration of dual member service credit, you may still purchase service credit. The cost for purchase is based on the potential increase in your benefit payments. For more information, see the *Plan 2 Recovery of Withdrawn or Optional Service Credit* brochure.

Can I restore Plan 2 service credit now that I belong to Plan 3?

To restore service credit, you must repay the total amount withdrawn within 60 service credit months of returning to service, or before you retire, whichever comes first. Payment must be completed by this deadline, or your service cannot be restored under this method.

It is still possible to purchase withdrawn and optional service credit after the deadline; however, the cost is considerably more expensive. You can learn more by reading the DRS online publication, *Plan 3 Recovery of Withdrawn or Optional Service Credit*.

When can I retire?

You are eligible for normal retirement at age 65 if you have:

- At least 10 service credit years; or
- Five service credit years including 12 service credit months earned after age 44; or
- Five service credit years earned in TRS Plan 2 prior to July 1, 1996.

You are eligible for early retirement at age 55 with a reduced benefit if you have at least 10 service credit

years (see “How does retirement before age 65 affect my benefit?”).

If you choose a survivor option at retirement, your benefit will also be reduced (see “What are my benefit options?” on page 14).

How does retirement before age 65 affect my benefit?

Retirement before age 65 is an early retirement. Your benefit depends on the service credit you earned, the date you retire, your age and the early retirement factor used.

If you have at least 10 service credit years:

- You can retire at or after age 55 with a reduced benefit. Your benefit is reduced to reflect the fact that you will receive it over a longer period of time. The amount of the reduction is greater than if you retire with at least 30 service credit years (see the table on the next page).

If you have at least 30 service credit years and you retire before September 1, 2008:

- You can retire at or after age 55 with a reduced benefit. Your benefit is reduced by three percent for each year of retirement before age 65 (see the table on the next page).

If you have at least 30 service credit years and you retire on or after September 1, 2008, you can choose either:

- The three percent Early Retirement Factor (ERF) shown in the table on the next page; OR
- The 2008 ERF which provides a smaller benefit reduction but imposes stricter return to work rules.

Note: See the DRS publications, *Thinking About Retiring Early?* and *Thinking About Working After Retirement?*

Early Retirement Factors

Retirement age	At least 10 years service	30 years or more service	
		3% ERF	2008 ERF*
55	0.37	0.70	0.80
56	0.40	0.73	0.83
57	0.43	0.76	0.86
58	0.49	0.79	0.89
59	0.55	0.82	0.92
60	0.61	0.85	0.95
61	0.67	0.88	0.98
62	0.73	0.91	1.00
63	0.82	0.94	1.00
64	0.91	0.97	1.00

*These factors were available beginning 9/1/2008 and were established by legislation which ended gain sharing. If a court of law decides the repeal of gain sharing is invalid, the factors and return to work rules in place before passage of the law will apply.

EXAMPLES

Examples are based on the benefit formula:

1% x Service Credit Years x Average Final Compensation (AFC) x ERF = Monthly Benefit

Retirement on March 1, 2008 at age 55 with 22 years of service credit

You retired on March 1, 2008 at age 55 with 22 years of service credit. Your average final compensation is \$3,600. You retired early so your benefit is 37% of what it would be at age 65. Your monthly benefit is calculated as follows:

Monthly Benefit

$$\begin{aligned}
 &= 1\% \times 22 \text{ years} \times \$3,600 \times 37\% \\
 &= .01 \times 22 \times \$3,600 \times .37 \\
 &= \$293
 \end{aligned}$$

EXAMPLES CONTINUED

Retirement on March 1, 2008 at age 60 with 30 years of service credit

You retired on March 1, 2008 at age 60 with 30 years of service credit. Your average final compensation is \$4,000. You retired early so your benefit is 85% of what it would be at age 65. Your monthly benefit is calculated as follows:

Monthly Benefit

$$\begin{aligned}
 &= 1\% \times 30 \text{ years} \times \$4,000 \times 85\% \\
 &= .01 \times 30 \times \$4,000 \times .85 \\
 &= \$1,020
 \end{aligned}$$

Retirement on October 1, 2008 at age 62 with 30 years of service credit

You retire on October 1, 2008 at age 62 with 30 years of service credit. Your average final compensation is \$4,400. If you choose the three percent ERF, your monthly benefit is calculated as follows:

Monthly Benefit

$$\begin{aligned}
 &= 1\% \times 30 \text{ years} \times \$4,400 \times 91\% \\
 &= .01 \times 30 \times \$4,400 \times .91 \\
 &= \$1,201
 \end{aligned}$$

If you choose to retire under the 2008 ERF, your benefit is unreduced but you have stricter return to work rules (read the brochure *Thinking About Working After Retirement?* available on the DRS Web site or through your employer). Your monthly benefit is calculated as follows:

Monthly Benefit

$$\begin{aligned}
 &= 1\% \times 30 \text{ years} \times \$4,400 \times 100\% \\
 &= .01 \times 30 \times \$4,400 \times 1.00 \\
 &= \$1,320
 \end{aligned}$$

Forfeiting sick leave to retire earlier

You may use up to 45 days of unused sick leave to help you qualify for retirement. Sick leave not cashed out by your employer may be converted to a maximum of two months of service credit.

This service credit is not used in the calculation of your benefit. It can only be used to qualify for retirement.

How do I retire?

As you get closer to retirement consider the following:

- As you approach retirement you may want to contact ICMA-RC to ensure your investment choices are appropriate for the length of time you have before retirement.
- If you are within a year of your retirement date, request an estimate of your benefit from DRS. DRS will send a retirement application with your estimate.
- Obtain a copy of IRS Publication 575, *Pension and Annuity Income*, also available on the IRS Web site at www.irs.gov.
- Contact the Social Security Administration for an estimate of your potential benefits. Visit the Social Security Web site at www.socialsecurity.gov for more information.

Applying for retirement

You can complete the entire retirement process through the mail. Contact DRS to request an estimate and a retirement application packet. Your retirement packet will be mailed to you with the completed estimate.

Payment of your defined contributions

To initiate payments from your defined contribution account, obtain the *Plan 3 Request for Payment of Defined Contribution Funds* packet from ICMA-RC. ICMA-RC also offers individualized consultations on payment plans.

How is my benefit calculated?

Benefit formula

Your monthly defined benefit is calculated using the following formula:

$$1\% \times \text{Service Credit Years} \times \text{AFC}$$

AFC is the monthly average of your 60 consecutive highest-paid service credit months. AFC does not include payments for any type of severance pay, such as lump-sum payments for deferred sick leave, vacation or annual leave.

EXAMPLE

Benefit calculation

Suppose you retire at age 65 with 32 service credit years. Your average final compensation is \$3,200. Your monthly retirement benefit will be \$1,024.

$$1\% \times 32 \text{ years} \times \$3,200 = \$1,024$$

This calculation results in the single life option. It will be lower if you choose to continue benefits to a survivor upon your death (see pages 14 and 15 for a description of benefit options).

Lump sum payment instead of monthly benefit

If your monthly benefit under Option 1 would be less than the indexed amount (as of January 1, 2008, the indexed amount is \$142.57) payment may be made in a lump sum at your discretion. Anyone receiving such a payment is considered retired from TRS. This provision is likely to apply only to members who retire early due to disability or with minimal service credit. The indexed amount changes each January.

Calculating benefits for dual members

The service retirement benefit for dual members is the sum of the benefits they have earned separately from each system. Dual members with a total of five or more service credit years from all eligible systems are entitled to a benefit from each system, even if they have less than five service credit years in any of the systems.

In most cases, dual members will receive a benefit based on the highest base salary from any system, whichever produces the better benefit.

Base salary is the salary or wages earned, excluding overtime, lump-sum cashouts, severance pay and bonuses. Effective July 22, 2007, base salary can include overtime and other cash payments, if these payments can be used in all of the dual member systems you are retiring from (excluding the Washington State Patrol Retirement System). For details, refer to the DRS publication, *What is Dual Membership and How Does it Affect Me?*

EXAMPLE

Dual member benefits

Suppose you are 65 years old and have three service credit years with TRS Plan 3 and 13 service credit years with PERS Plan 1.

Without dual membership, your TRS service would be too short to earn a TRS benefit. With dual membership, you will receive a benefit from each plan, calculated according to the rules of each system as follows:

TRS Plan 3:

$1\% \times 3 \text{ years TRS service credit} \times \text{Average Final Compensation} = \text{TRS Benefit}$

PERS Plan 1:

$2\% \times 13 \text{ years PERS service credit} \times \text{Average Final Compensation} = \text{PERS Benefit}$

Out-of-state service

A TRS Plan 3 member may use service credit earned in a public school teachers' retirement system in another state to meet the service credit requirements for early retirement. Out-of-state service is not used in the calculation of your TRS benefit amount; it affects only your retirement eligibility date and the reduction table used in the calculation.

If you elect to use out-of-state credit to qualify for retirement, your benefit will be reduced to reflect the early retirement. If the out-of-state credit raises your service credit total to 30 years or more, the early retirement reduction rate may possibly be reduced. You can obtain an information packet on out-of-state service by contacting DRS.

Purchasing out-of-state service

Effective January 1, 2007, a TRS Plan 3 active member may qualify to make a one-time purchase of up to seven years of public education service earned as a teacher* outside of TRS. The purchased service credit will be added to the member's total service credit and used to qualify for regular or early retirement.

To qualify as public education experience, the service must:

- Have been earned as a teacher* in a public school in another U.S. state, or with the U.S. federal government, and
- Be creditable under a retirement or pension plan.

To qualify to purchase, a member must:

- Be an active member of TRS Plan 3,
- Have earned at least two years of TRS service credit,
- Not be receiving a benefit from the former system, and
- Not be eligible for an unreduced benefit from the former system.

For more information about purchasing out-of-state service earned outside TRS, see the brochure *Using Service Credit Earned Outside the Washington State Teachers' Retirement System* on the DRS Web site.

What is the purchase of additional service credit option?

When you retire, you may purchase additional service credit to increase your monthly benefit. You may purchase from one to 60 months in whole month increments. The purchased credit may not be used to qualify for retirement, early retirement or to qualify for an early retirement factor instead of the actuarial reduction factor. You must submit the *Request to Purchase Additional Retirement*

* As defined by your former retirement system.

Service Credit form to DRS at the same time you submit your retirement application.

The amount your benefit would increase is determined by the number of months you purchase, your Average Final Compensation (AFC) and an Early Retirement Factor (ERF) if you retire early. The formula used is:

$$\begin{aligned} &\text{Months of Service Purchased} \div 12 \\ &\times 1\% \times \text{AFC} \times \text{ERF (if any)} = \\ &\text{Monthly Increase} \end{aligned}$$

The cost to purchase additional service credit is determined by the annuity factor for your age at retirement and the monthly increase amount. The formula used is:

$$\begin{aligned} &\text{Monthly Increase} \div \text{Annuity Factor} = \\ &\text{Cost to Purchase} \end{aligned}$$

For more information, review the DRS publication *Purchasing Additional Service Credit*, available on the DRS Web site. You may also estimate the monthly increase and cost by using *Online Account Access* on the DRS Web site. Once you are in your account, select the *Purchasing Service* link.

What are my benefit options?

When you apply for a service or disability retirement, you must select a benefit option. This option generally cannot be changed after you retire. You are considered a retiree on the first of the month in which you retire.

If you are married, the law requires that you provide the written consent of your spouse to the benefit option you choose. This consent must be in writing and must be witnessed by a notary. **If consent is not provided, the law requires that an Option 3 benefit be paid with your spouse as beneficiary.** The retirement application contains the spousal consent authorization.

Option 1 Single life

This option pays you a benefit for your lifetime. If you die before the total benefits you receive equal your contributions plus interest at the date of retirement, the balance will be paid in a lump sum to your named beneficiary.

Option 2 Joint and 100 percent survivor

This option provides you with a reduced benefit. If your designated beneficiary survives you, the benefit amount remains the same and your beneficiary continues to receive it for his or her lifetime.

Option 3 Joint and 50 percent survivor

This option provides you with a reduced benefit. If your designated beneficiary survives you, 50 percent of your benefit is paid to your beneficiary for his or her lifetime.

Option 4 Joint and 66.67 percent survivor

This option provides you with a reduced benefit. If your designated beneficiary survives you, 66.67 percent of your benefit is paid to your beneficiary for his or her lifetime.

Cost-of-living adjustment (COLA)

On July 1 of every year following your first full year of retirement, your monthly benefit will be adjusted by the percentage change in the Consumer Price Index, to a maximum of three percent per year.

Changing a benefit option after retirement

Once you retire you may change your benefit option and beneficiary only by returning to active membership, **except in the following circumstances:**

- If you choose one of the survivor options (2, 3 or 4), and your designated beneficiary dies, your retirement benefit will be adjusted to the higher Option 1 payment level. Be sure to notify DRS to initiate this adjustment.

- If you choose someone other than a spouse to be the beneficiary of a survivor benefit, you can change to Option 1 at any time after retirement. This option can be used only once and is irrevocable.
- If you retire under Option 1, then marry and remain married for at least one year, you may change your benefit option and name your spouse as beneficiary. You must request this change between the first and second year of your marriage. If you change to a survivor option, your benefit will be reduced accordingly. This option can be used only once and is irrevocable.

What defined benefits do my survivors receive?

Death after retirement

If you die after you begin a service or disability retirement, your survivors may be eligible to receive a defined benefit depending upon the retirement option you chose (see “What are my benefit options?” on pages 14 and 15).

Death before retirement

If you die before you retire, your surviving spouse, or if none, the guardian of your minor children, will receive a benefit calculated as if you had:

- Elected an Option 2 benefit; and
- Separated on the date of your death. The benefit is reduced if you are under age 65 at death.

If your spouse dies while receiving a survivor’s retirement benefit and leaves a minor child or children, the children will continue to receive the benefit that was paid to your spouse. The benefit will be shared equally among the children and paid until they reach 18 years of age.

Death as a result of an injury or occupational disease sustained in the course of employment

If an active member or retiree dies as a result of injuries sustained in the course of employment or if the death resulted from an occupational disease or infection that arose naturally and proximately out of their covered employment, and the Department of Labor and Industries has determined eligibility for the payment, DRS will pay a \$150,000 death benefit to the member’s beneficiary.

Defined benefit waiver

You may waive your defined benefit in Plan 3, unless your retirement is impacted by a legal order. Waiving your defined benefit is an irrevocable decision. You cannot repurchase service credit once it has been waived. Spousal consent is required to waive the defined benefit.

Why would you want to give up your defined benefit?

Some retirement plans have provisions which allow members to transfer contributions and/or service credit earned elsewhere into their retirement plan. The Legislature created this waiver to allow you to give up your benefit in Washington State, so you can claim service and benefits in another plan.

How is the value of my defined contribution account determined?

There is no benefit formula used to calculate the value of your defined contributions. The value of your account will be based entirely on the amount you contribute and the performance of the investments. As in any investment, there is an element of risk.

How the WSIB Investment Program values its funds

The WSIB Investment Program is composed of a variety of investment vehicles. Its value is measured by the composite worth of the fund’s entire portfolio as determined by the current market

value of each investment. Your contributions are converted to shares in the fund. The cost of a share is based on the composite value of the fund at the time the share is purchased. Share values increase or decrease at the same rate as the TAP. The WSIB values the TAP once each month.

How the Self-Directed Investment Program values its funds

There are a variety of investments available through the Self-Directed Investment Program. Each investment is valued separately based on its current selling price in the market. Within the Self-Directed Investment Program, member portfolios are valued daily.

How your retirement contributions are processed

Your employer transmits your contributions and member data to DRS on a monthly basis. Under state law, employers are required to provide DRS with member contributions and data by the 15th of the month following the month in which the contributions were deducted from your paycheck.

Both investment programs incorporate a Short-Term Investment Fund (STIF) where contributions are placed and begin earning interest. Individual member contributions (reported by your employer) are reconciled with the cash DRS receives from them. At this point, the process of moving your contributions into your investment program begins.

Depending on your employer's reporting schedule and your choice of investment program, there will be some variation in the time it takes for contributions to move between the STIF and your investment allocation. For more information about how your investments are processed, refer to your *Plan 3 Investment Guide*.

Separate quarterly statements are issued for each investment program

WSIB Investment Program account statements are issued 45 days after the end of the quarter. Self-Directed Investment Program account statements are issued 10 business days after the end of the quarter.

Gain sharing

The 2007 Legislature passed a law to end gain sharing after January 1, 2008. The last gain sharing payment for Plan 3 members occurred in January 2008. The same legislation established new benefits for members.

Beginning July 1, 2007, newly hired members have 90 days to choose between Plan 2 and Plan 3. If a choice is not made during the 90 day window, a member will default to Plan 3.

Beginning September 1, 2008, Plan 2 and Plan 3 members who are age 55 with at least 30 years of service will have a choice of retiring using new lower early retirement reduction factors or retiring using the existing early retirement reduction factors. See "How does retirement before age 65 affect my benefit?" on page 10.

If a court of law decides the repeal of gain sharing is invalid, the reduction factors for early retirement at age 55 with 30 years of service that were in place before the passage of the new law will apply. Additionally any new employee hired after that action would not have the choice between Plan 2 and Plan 3 and would be mandated into Plan 3.

When can I access my defined contribution money?

While your defined contribution investments are intended to be part of your retirement income, any time you separate from all TRS-covered employment you may elect to withdraw the funds in your defined contribution account. You may take payment under a variety of payment plans, including installments, lump sum or rollover,

which you design to fit your specific retirement goals. In addition, both the WSIB and the Self-Directed Investment Programs offer lifetime annuity payment options.

To learn more about your withdrawal options, obtain the *Plan 3 Request for Payment of Defined Contribution Funds* packet from the ICMA-RC. ICMA-RC offers individualized consultations on payment plans via a toll-free customer service phone line.

Processing a withdrawal

The withdrawal process usually requires 30 to 90 days from the time you leave employment and submit your withdrawal request. The length of time depends on your employer's reporting cycle, how long you have been separated from employment, the time of month you submit the request, and the investment program from which you are withdrawing.

Tax implications of withdrawing your defined contributions

If you choose a cash distribution, you will owe income tax on your tax-deferred contributions and investment earnings.

The IRS requires that 20 percent of any lump sum or partial payment withdrawal of tax-deferred funds be withheld. If you are under age 59½ when you take payment, an additional 10 percent tax for early withdrawal may be assessed by the IRS when you file your annual tax return. All withdrawals paid to you are reported to the IRS as earnings in the calendar year the withdrawals are paid.

If you wish to postpone the withholding tax and avoid the 10 percent additional tax, you may roll the funds directly into a tax-deferred retirement account, or a qualified employer-sponsored retirement plan.

For more information about withdrawing your defined contribution money and the associated tax requirements, obtain a copy of Publication 575, *Pension and Annuity Income*, from the IRS.

Designating a beneficiary

You should keep your beneficiary designation record up-to-date with DRS. The *Beneficiary Designation* form, which is available online, from your employer, and from DRS, must be mailed to DRS. If you fail to file a *Beneficiary Designation* form, DRS pays your surviving spouse or, if none, your estate.

If you marry or divorce prior to retirement, file a new *Beneficiary Designation* form, even if your beneficiary remains the same. However, you should be aware that an ex-spouse may have a right to a portion of your benefits under certain circumstances (see "Taxation and assignment of benefits" on the next page).

At retirement, if you choose an Option 1 benefit payment, you may name a trust, your estate, an organization, or a person as your beneficiary. However, if you choose Option 2, 3 or 4, you must select one person as your beneficiary.

What if I work after retirement?

Your benefits may be affected if you work for a DRS-covered employer after retirement. Under state law, the employer is required to report your hours to DRS. When you apply for retirement you will receive information about returning to work. You may also access this information on the DRS Web site. If you are not sure how those rules may apply to you, please call DRS before you return to work.

What if I become disabled?

If a disability totally incapacitates you for continued employment with a TRS employer, and you leave that employment as a result, you may be eligible for a disability retirement benefit. There is no minimum service credit requirement for this benefit. Benefits will not be paid until you have separated from service.

You can learn more about TRS Plan 3 disability benefits by reading the DRS publication, *TRS Plan 2 and 3 Disability Benefits*.

Disability retirement benefit

The disability retirement benefit, including survivor options, is determined by the same formula as a service retirement benefit, described on page 12. The disability retirement benefit is reduced to reflect your age at the time benefits begin.

What happens if I die before I receive my defined contributions?

If you die before initiating payment

If you die before initiating any payment plan from your defined contribution account, your beneficiary has the right to:

- Take payment in a lump sum cash distribution;
- Set up a scheduled payment plan; or
- Roll over your defined contribution account into an eligible retirement account.

For more information about taking payment of Plan 3 defined contribution funds, see the publication *Plan 3 Request for Payment of Defined Contribution Funds*.

If you die after initiating payment

If you die after initiating payment of your defined contribution account and you still have money in the account, your beneficiary should contact DRS to facilitate payment of the remainder of the funds. If retirement payments are derived from an annuity, the payments continue or stop based on the terms of the annuity.

Am I eligible for health insurance coverage after I leave employment?

To qualify for health care coverage when you separate from employment you must:

- Be eligible for a retirement benefit and elect Public Employees Benefits Board (PEBB)

coverage within 60 days from the date of your retirement; or

- Be at least age 55 with 10 or more years of service credit and elect PEBB coverage within 60 days of your date of separation.

To find out if you are qualified for PEBB benefits, contact your employer. You can also contact the Health Care Authority (HCA) at 1-800-200-1004 or visit the Web site at www.hca.wa.gov.

Why does DRS need my Social Security number?

DRS requires that you provide your Social Security number when you are conducting business with the agency. Internal Revenue Code Sections 6041 (A), and 6109 authorize DRS to solicit your Social Security number.

- DRS will use your Social Security number to track all data regarding your retirement account and to report required information to the IRS.
- DRS will not disclose your Social Security number to any party unless required to do so by law.

Taxation and assignment of benefits

Federal income taxes

Most of your retirement benefit is subject to federal income tax. Only the portion taxed before it was contributed is exempt. Since September 1, 1984, many employees have deducted member contributions before taxes. If you purchased optional service, those funds may not be tax deferred.

After you retire, DRS will let you know what portion of your contributions has already been taxed. The IRS refers to this taxed amount as your “cost” or “basis recovery.”

You must complete a W-4P form to tell DRS how much of your benefit should be withheld for taxes. If you do not, DRS will follow IRS rules that require withholding as if you are married and claiming three exemptions. It is your responsibility to declare the proper amount of taxable income on your income tax return.

Assignment and attachment of benefits

Retirement benefits are not generally subject to assignment or attachment. However, payments received by you in the form of retirement benefits or as a refund of your contributions, may be subject to payment of court and administrative orders for spousal maintenance and child support, or payment of any orders authorized by federal law.

DRS is authorized to divide pensions between members and ex-spouses based upon court-ordered property division. If the divorce decree complies with the applicable law, DRS will send the property division payment directly to the ex-spouse. For more information, review the DRS brochures, *Can Legal Action Affect My Retirement Account?* and *How Can a Property Division Affect My Retirement Account?* available on the DRS Web site.

Administrative information

Administration of the system

The Teachers' Retirement System is administered by DRS. The Director of DRS is appointed by the Governor. The current record-keeper for Plan 3 defined contribution accounts is the ICMA Retirement Corporation (ICMA-RC).

Payment of retirement benefits

Your retirement benefit accrues from the first day of the month following the date you separate from service if you are otherwise eligible for retirement. Your benefit is paid at the end of each month and, in most cases, can be deposited directly in your bank or credit union account.

Benefit adjustments

If you receive an overpayment of your retirement benefit or withdrawal, DRS will require that the overpayment be repaid. If there is an underpayment, DRS will correct the error and pay you in full.

Petitions and appeals

Under DRS internal review procedures, all appeals begin as petitions. You may challenge a decision of a DRS administrator by filing a petition within 120 days of your receipt of the decision. A petition will be reviewed by the DRS Petitions Examiner.

To file a petition, complete and submit a detailed statement of:

- The relief you are requesting;
- The facts relating to your petition, including any relevant documents or sworn statements which support your request for relief;
- The legal basis for your petition, including any relevant legal provisions or precedents;
- The name and address of your legal counsel, if you choose to be represented; and
- Your name, address, Social Security number, and signature.

The Petitions Examiner will ask for information from the parties involved. Usually, this means you, DRS and possibly your employer. After review, the Petitions Examiner will enter a written decision and mail that decision to you by certified mail.

If you are not satisfied with the petition decision, you may file an appeal within 60 days of receipt of the decision. Included with your petition decision will be information describing how to file an appeal. An appeal will be heard by either DRS' Presiding Officer or an Administrative Law Judge.

Contacting DRS

When you contact DRS about personal account information, be sure to include:

- Your Social Security number
- Your signature (for written correspondence)
- Your daytime telephone number
- Your mailing address
- The plan you are requesting information about

Mailing address

Department of Retirement Systems
TRS
PO Box 48380
Olympia, Washington 98504-8380

Telephone

Olympia (360) 664-7000
Toll-free..... 1-800-547-6657
TDD Line..... (360) 586-5450
Toll-free TDD Number..... 1-866-377-8895
Fax Number..... (360) 753-3429

E-mail address

recep@drs.wa.gov

Important: Electronic mail messages sent over the Internet may not be confidential. It may be possible for other people to read your e-mail message. For security purposes, include only the last four digits of your Social Security number.

Web address

www.drs.wa.gov

The DRS Web site contains the most recent edition of this handbook and other member publications for TRS and other DRS-administered systems.

The site also includes:

- Online access to your account, allowing you to review information such as your defined benefit account balance, employment history, beneficiary information and annual statements.

- Recent issues of the member newsletter, *Retirement Outlook*.
- Information about recent retirement-related legislation.
- A variety of other information of interest to retirement system members and public employers in Washington State.

Contact DRS for the following:

- To obtain more information about your rights and benefits under this plan.
- To apply for retirement.
- To schedule an appointment to review your defined benefit account information and retirement options in person.
- To obtain copies of DRS publications mentioned in this handbook (publications are also available on our Web site).

**Contacting ICMA-RC
(Plan 3 Record keeper)**

For questions about your defined contribution account balance, investments, withdrawals, quarterly statements, allocations or fund transfers, contact the Plan 3 record-keeper, ICMA-RC.

Telephone

Toll-free..... 1-888-711-8773 or (202) 962-4600
TDD line..... 1-800-669-7471

ICMA-RC e-mail address

Plan3@icmarc.org

ICMA-RC Web address

www.icmarc.org/trs

